

Opening remarks

Asian Financial Forum – Hong Kong

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Ladies and gentlemen,

Let me first thank the Hong Kong authorities for inviting me to speak at this prestigious event about the important topic of long-term sustainable growth, which is very high on the agenda, both here in the East and in the West.

It is good to be back in my birthplace. No, that is not a slip of the tongue. I was born in Hong Kong, about one mile from here in the area called Happy Valley. Consistent with that, I have always been an optimistic person, and that is a very valuable trait as a regulator. Although my family and I lived only shortly here in Hong Kong, I am proud of being born here, and I am sure that it gave me a good start in life.

The core topic of this panel is long-term, sustainable growth in Asia. I am certainly not in a position to give a lecture on this topic as current Asian growth figures are on average higher than those in the European Union. Therefore I will listen carefully here today and take some lessons back home with me.

Instead, I will share with you my current thinking on long-term growth from the perspective of an EU securities markets regulator. Let me first start with the regulatory response to the financial crisis and the frequently heard suggestion that this broad response is hampering economic recovery. The broad regulatory response was and is needed to prevent the recurrence of a crisis like the one we have experienced in the past seven years. The financial crisis has seriously destroyed economic growth. Since 2008, the EU has been on a systematically lower growth path, and is now more than 10% under the trend line as expected before the financial crisis started.

Therefore, the regulatory response to the financial crisis is consistent with promoting sustainable growth and we need to continue to honour the G20 commitments in response to the crisis. To avoid regulatory competition, we need to ensure that all major financial centres across the world continue with this. Let me express that in this respect I am very impressed by the progress in Asia and specifically here in Hong Kong. Without the catalyst of a deep financial crisis you have managed to progress very well with the regulatory reform. This gives you the chance to undertake regulatory reform to avoid a crisis instead of needing to reform after a crisis.

My organisation is now heavily involved in the implementation of the G20 commitments for EU financial markets. I would like to emphasise how important this implementation is. The initial phase of getting the relevant laws agreed is only half the job done. Subsequently, it is at least as important that the laws work in practice with the right technical implementation and making sure that the rules are credibly supervised

and enforced. To sum up, we should not lose our focus on the regulatory reform. It contributes to sustainable growth and we need to persist: implementation is at least as important as legislation.

Of course, that is not to say that we have done all we can to get our economies back on track and to support long-term sustainable growth. An important development high on our current agenda is the strengthening of the role of capital markets. As you will know, for funding our economy, the EU relies heavily on banks, and we want to give more weight to capital market funding. This change is especially urgent for our Small and Medium-size Enterprises (SMEs), as they historically have strongly depended on bank funding. Therefore, the European Commission has introduced the concept of the Capital Markets Union (CMU) and has announced that it will come with an action plan later this year. It is clear that it will be about an accelerated integration of the capital markets of all 28 EU Member States. Let me share with you what I personally think should be the four main building blocks of the CMU.

1. Greater diversity in funding

Greater diversity in funding is not only about more non-bank funding, it is also about developing and maintaining a wide variety of funding channels within the non-banking sector, including investment funds, Initial Public Offerings (IPOs), venture capital, securitisation, private equity and crowd funding. I think it is up to investors and market participants to decide which channel best suits their investment and

funding needs, and policy makers and regulators should be careful in assuming the superiority of one channel over the other.

2. Increasing the efficiency of capital markets

Policies aimed at increasing the efficiency of EU capital markets are needed to increase capital market financing with deep, liquid and well-functioning markets. This is affected by many factors, including disclosure requirements, accounting standards, corporate governance, transparency around pricing and the legal arrangements regarding the various stages of a financial instrument's life-cycle. As there are still many barriers, it is not realistic to think we will be able to remove all of them. We need to assess which changes will have the biggest impact on EU capital market efficiency and many questions need to be answered in that respect. To name just a few: Should we consider simplifying the requirements for prospectuses? Should we start harmonising corporate governance and company law? What can be done in the area of shareholder rights?

3. Strengthening and harmonisation of supervision

The third building block concerns strengthening and harmonising supervision. Converged supervision, by which I mean consistent application of the same rules and using similar approaches, across the 28 EU Member States is needed to ensure that the single rulebook on paper is a single EU market in practice. Given the breadth and

complexity of the single rulebook, regulators need to make many choices regarding their supervision, including the interpretation of the rules and the intensity of supervision. Diversity in these choices will have the result that the single rulebook will not in fact be seen as such by investors and market participants.

4. Increasing the attractiveness of capital markets both for EU investors and for investors from outside the Union

A successful capital market requires active participation by investors, including retail investors. Therefore, a high level of investor protection is essential for a successful CMU. Only when investors feel sufficiently protected will they be willing to enter the capital markets and participate. As trust in the financial sector is generally low, a lot of work remains to be done here. While this has gradually been improving, in 2013 still only 35% of EU retail investors trusted investment services providers to respect consumer protection rules.

Let me now move to the international dimension. How can Europe be attractive for investors outside the EU and maintain and improve its role as a cornerstone of the international financial markets? Essential for this objective is striking the right balance between being an open financial market attracting foreign investment while maintaining our standards regarding stability and investor protection. Let me in the remainder of my contribution illustrate this point with focussing on the strong relationships between European and Asian financial markets.

Considering the high level of interconnectedness between us, it is imperative that we cooperate on regulation and supervision. This good cooperation is needed to avoid regulatory competition between main financial centres of the world. However, it is also important for our shared objective of long-term growth.

As a reflection of the interconnectedness and complexity of our financial markets, ESMA is working with a large number of Asian regulators on a range of regulatory issues. Areas we are cooperating on include the regulation and supervision of credit rating agencies, CCPs, OTC derivatives, financial reporting, hedge funds and asset management more broadly. The substance of this cooperation covers a broad range of elements, including agreeing on MOUs, the registration and recognition of financial markets participants, calibrating technical rules, and exchanging information on risks in financial markets.

Having the objective of long-term growth in mind, I should emphasise that international cooperation on regulation and supervision is not only about controlling and reducing the risks posed by certain financial entities and practices. It is, and should also be, about providing economic opportunities, reducing fragmentation, and reaping the benefits of globally integrated financial markets. A good example in this respect is the legal framework for European investment funds, so-called UCITS funds. This framework has provided the opportunity for many EU asset managers to attract funding from Asia and has provided you the opportunity to invest in the EU with the right level of investor protection. To illustrate this, the number of UCITS registered for sale in at least one Asian country is today five times higher than it was 10 years ago. In 2004

there were about 3200 UCITS registered for sale in Asia, and today they are almost 16700.

As I just said, cooperation is both about controlling and reducing risks and providing economic opportunities in globally integrated financial markets. As a European regulator, working with 28 national regulators, I am of course very familiar with serving these two objectives at the European level. As explained earlier, the CMU is about accelerated integration of financial markets within the EU.

The two mentioned objectives are also broadly reflected in our general philosophy regarding global cooperation. Without going into all detailed complexities, we have generally a system whereby financial market participants coming from abroad need to be subject to the same regulation and supervision as their European competitors. However, if they are subject to home country regulation and supervision achieving the same outcomes, we are in principle willing to rely on that. We think that this mechanism is the best response to avoid regulatory competition, to ensure consistent regulation and supervision, and to reduce the fragmentation of financial markets. This should all serve in achieving sustainable economic growth.

Talking about global cooperation, I should finally mention the very good work done by Ashley Alder, CEO of the Hong Kong SFC. He is chairing an IOSCO task force on cross-border cooperation. As discussed, regulating global markets from a national or regional perspective raises many problems. The results of the mentioned task force should help us to respond to these problems.



Ladies and gentlemen, it is time to conclude my contribution. Both Asia and Europe face enormous challenges to achieve long-term sustainable growth. Strong, integrated capital markets can make an important contribution to that end. That requires us to carefully balance controlling and reducing risks in financial markets, and providing economic opportunities, reducing fragmentation, and reaping the benefits of globally integrated financial markets.

Let us work on that together.

Thank you for your attention.